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SIPDIS

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TAGS: ECON EFIN ETRD PREL PGOV PK
SUBJECT: DCM'S MEETING WITH PAKISTANI FINANCE SECRETARY
WAQAR MASOOD

Classified By: Anne W. Patterson, Reasons 1.4 (b) and (d)

¶1. (C) DCM and EconOff called on newly re-installed Finance
Secretary Dr. Waqar Masood at his office on September 5.
Masood noted that he had been back in office only four days
but nevertheless, he was deeply engaged in managing the
current economic crisis. He welcomed the visit by Embassy
officers and declared that, although he had not asked the
purpose of the appointment request, he had hoped it would be
to discuss the overall economic situation.

¶2. (C) Masood launched into a standard analysis of the state
of the Pakistani economy, insisting that the economy was
demonstrating resilience even though it had suffered from
twin oil and food price shocks. He insisted the challenge
was management of the near-term economic problem but that
Pakistan,s prospects over the longer term remained
fundamentally sound. Indeed, the food price shock was
self-inflicted, he said, as it was aggravated by the
over-export of Pakistani wheat. Despite his optimism, Masood
noted the energy crisis is beyond anything the country has
observed in its history, commenting that load-shedding of six
hours per day in Islamabad was a unique experience. He
predicted new independent power producers would come on line
soon that would ease the energy shortfall.

¶3. (C) Masood recounted the mis-steps of the previous
administration, noting, for instance, that the budget deficit
had reached about 8 percent, nearly double the 4.7 percent
target. He expressed confidence that the new government
could hold the deficit to 4.7 percent. Once Asif Zardari was
elected President, he opined, it would bring more political
stability, hence providing a window of opportunity to
articulate and implement significant economic policy and
continue economic reforms. He said the GOP was on track to
end petroleum subsidies completely by the end of calendar
year 2008 and had already reduced them from PKR 44-45 per
liter to PKR 12-13 per liter. The end of fuel subsidies
would include the politically sensitive kerosene subsidy,
which, he said, affected primarily lower income Pakistanis
who use kerosene for home heating. Electricity rates,
similarly, would be raised in two tranches of 31 percent and
30 percent between now and the end of the Pakistani fiscal
year on June 30, 2009.

¶4. (C) On privatization, Masood confirmed the government
would press ahead with plans to resume the effort. Several
privatization schemes that had been in the works and were

nearing completion would be pushed forward, he said, which would result in significant new funding for the Treasury. He admitted, however, that fresh funds would not be seen for some months to come.

¶5. (C) Completely rejecting the notion of Pakistan's imminent default as suggested in recent press reports, Masood argued that he was able to cover current obligations completely. In what seemed an unusual statement, he asserted he could always end imports, if needed. Nevertheless, he noted that Pakistan needs external assistance. He expressed cautious optimism the Saudis would come through with financial assistance, but he declined to say how much or when the aid was expected. He also did not push back when the DCM observed that, in our own discussions with the Saudis, they had indicated they had made no decision yet.

¶6. (C) As for the International Monetary Fund (IMF) and World Bank (Bank), Masood recalled there had been progress towards a Bank loan earlier in the year, but the international financial institutions backed away when the macroeconomic indicators began to slip. Masood expressed openness to consider greater Bank and IMF involvement in the economy. He said a team would come to Pakistan for ten days beginning on September 12 to work with the GOP on overcoming its economic problems. Masood noted the political difficulties of embracing a full-fledged IMF program, insisting the GOP could develop a credible program without the IMF. Nevertheless, he did not rule out the possibility of a shadow IMF program. He also noted the GOP might be willing to take on a Poverty Reduction Support Credit (PRSC)

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that would provide cash relief in exchange for government assurances on budget allocations. A PRSC agreement, he said, would require an annual IMF review of Pakistan's macroeconomic situation.

¶7. (C) Masood indicated the Embassy would be welcome to attend meetings with the IMF/World Bank team during their visit to Islamabad.

¶8. (C) Bio Note: Masood, who holds a PhD from Boston University, is serving his second stint as Finance Secretary. His first tenure, which began under Shaukat Aziz, ended earlier this year, when he was relieved of duties. He was not offered any other position in the government during this hiatus, instead following the time honored tradition of "spending more time with his family." Presumably politically rehabilitated, Masood was brought back to the Ministry in a surprise move earlier this week. He is generally well-regarded for his economic skills.

¶9. (C) Comment: Masood unsurprisingly toed the line of general optimism that Pakistan's problems are short-term and easily rectified. It is hard to see, however, how Pakistan can so easily regain its footing, especially in the face of an ongoing energy crisis that makes expanding the industrial base nearly impossible. End Comment.

PATTERSON